

Service Date: November 20, 1991

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER of the Application)
of the City of Great Falls for) UTILITY DIVISION
Authority to Increase Rates and) DOCKET NO. 90.10.66
Charges for Sewer Service to its) ORDER NO. 5522k
Great Falls, Montana, Customers.)

FINAL ORDER ON COST-OF-SERVICE/RATE DESIGN

APPEARANCES

FOR THE APPLICANT:

David Gliko, City Attorney, City of Great Falls, P.O. Box
5021, Great Falls, Montana 59403-5021.

FOR THE INTERVENORS:

Mary Wright, Staff Attorney, Montana Consumer Counsel, 34
West 6th Avenue, Helena, Montana 59620.

Lt Col Bruce Barnard, Attorney-at-Law, Federal Executive
Agencies, HQ USAF/ULT, Stop 21, Tyndall AFB, Florida
32403-6001.

Robert Goff, Attorney-at-Law, Montana Refining Company,
Third Floor, Norwest Bank Building, P.O. Box 1645, Great
Falls, Montana 59401.

Patrick Flaherty, Attorney-at-Law, Montana Peoples Action,
625 Central Avenue West, Great Falls, Montana.

FOR THE COMMISSION:

Tim Sweeney, Staff Attorney, 1701 Prospect Avenue,
Helena, Montana 59620.

Ron Woods, Rate Analyst, 1701 Prospect Avenue, Helena,
Montana.

BEFORE:

BOB ANDERSON, Commissioner and Presiding Officer
JOHN DRISCOLL, Commissioner
WALLY MERCER, Commissioner

BACKGROUND

1. The Commission stated in Order No. 5522j: "The Commission, by separate order, will discuss the issue of cost-of-service (COS) and rate design in this Docket. The rate design order will be issued by the Commission no later than November 18, 1991." The following is the Commission's Order on COS and rate design.

COST-OF-SERVICE

2. In its application, the City has proposed the implementation of a rate structure that includes a monthly customer charge and a commodity rate per hundred cubic feet (ccf) of flow. The City also proposes the continuation of an "extra strength surcharge" to recover the additional costs associated with the processing of extra strength effluent.

3. The Applicant presented a COS study using the cost causative allocation method. This allocation method has been endorsed by the Water Pollution Control Federation, the American Public Works Association and the American Society of Civil Engineers. In the cost causative method costs are separated into components of volume, strength, and customer costs.

4. This method allocates the costs of service (capital costs and operating costs) using the causative factors of volume, BOD, TSS and customer costs. The volume-related costs include those costs that tend to vary with the amount of effluent contributed to the sewage system. The volume costs are allocated to customer classifications in relation to the total effluent contribution by each class. BOD and TSS are effluent strength-related costs and tend to vary with the pounds of material in the effluent. The effluent strength costs are allocated to customer classes based on the average strength concentrations and contributed waste water volume.

5. Customer costs are directly assignable and include such items as meter reading, billing, collecting, and accounting. These costs are assigned to the customer classifications based on

the number of customers in the class.

6. No party to this proceeding challenged the use of the cost causative allocation procedure for determining class COS. However, FEA and MRC did challenge the City's initial cost functionalization for costs to be assigned the various classes through the allocation procedure. FEA and MRC asserted that the City had inappropriately allocated certain cost components in determining class COS for Malmstrom, Black Eagle and MRC. FEA recommended modifications to the City's study which, in its opinion, more accurately reflected the costs of providing service to all customer classes.

7. FEA prepared its own COS study using the cost causative method of cost allocation and sponsored it as an exhibit during the proceeding. In the prefiled testimony supporting its COS study, FEA witnesses stated that the City's study was faulty in its initial determination of costs to be allocated to the various customer classes. FEA, through its testimony and exhibits, attempted to demonstrate that the City had overstated the cost of providing service to Malmstrom and Black Eagle and understated the COS to the other customer classes. FEA specifically maintains that the City's study assigns local collection system operation and maintenance expenses, local collection system capital costs, and infiltration/inflow of water into the system, in a manner inconsistent with the character of service received by the Malmstrom and Black Eagle connections.

8. The FEA presentation points out that Malmstrom is connected to the City's sewer system by two 12-inch trunk lines and that Malmstrom discharges its sewage at these two connections as a master meter customer. FEA asserts that because its connections with the city sewage system are 12 inches in diameter, it receives no significant benefit from sewage collection mains having a diameter of 10 inches or less. In its cost presentation, FEA removes operation, maintenance and capital costs associated with 10 inch and smaller mains from the cost of providing service to Malmstrom and Black Eagle. FEA contends

that 10 inch and smaller mains constitute the local sewage collection network of the utility and are constructed to collect sewage of small individual customers, not high volume customers such as Malmstrom and Black Eagle.

9. Because it challenged the City's COS study, the burden of disproving the reasonableness of the City's COS study rested with FEA. FEA's dispute with the City's COS study centers on the City's assumption that the sewer utility provides service to Malmstrom and Black Eagle through the local collection system. FEA witnesses stated that Malmstrom and Black Eagle convey their sewage directly to the City's trunk and interceptor system, thereby completely bypassing the local collection system.

10. The City's sewer collection system is a gravity flow system to lift stations, located on interceptor lines and main trunk lines, for delivery to the sewage treatment plant. Since Malmstrom and Black Eagle discharge their sewage directly to trunk lines or interceptor lines, the Commission must conclude that neither connection receives a benefit from the local collection system. This being the case, the Commission is persuaded that these two connections should not be assigned operation and maintenance costs or capital costs associated with the local collection system.

11. The Commission finds it appropriate to adopt FEA's proposed adjustments to the City's COS study. For purposes of calculating class COS the City shall use the procedures outlined in prefiled testimony of FEA's witnesses.

12. MRC presented testimony opposing the City's COS and proposed rate design insofar as it related to provision of service to its facilities. MRC argued that the City's proposed increase in rates to its connection was inconsistent with the terms of the sewer contract between the parties. MRC asserted that, for purposes of establishing rates for MRC, the Commission should adhere to the terms and conditions of the contract. The rates and charges assessed by a municipal utility, whether by

tariff or contract, are the sole province of this Commission when that municipality makes application for rate modifications.

13. It is this Commission's general policy that rates reflect the cost of providing service to a customer class unless a compelling public interest dictates deviation from that standard. The information developed during this proceeding reveals that there exists a significant difference between rates calculated per the contract and those developed through the COS study. The rates developed per the COS study are significantly higher than those developed per the contract. Given the Commission's policy to establish cost-based rates the Commission rejects MRC's argument that the Commission ignore the City's COS study and develop rates in a manner consistent with the terms and conditions of the contract between the City and MRC.

14. MRC presented a public interest argument to support its proposal that the Commission enforce and accept adherence to the terms and conditions of the contract. MRC's witnesses discuss MRC's physical ability and economic incentive to bypass the City's sewage facilities if COS-based rates are implemented. The potential of a large subscriber to bypass utility services is a valid public interest argument for implementing incentive rates. But the argument is only valid when that bypass potential is real and the bypass results in substantial adverse financial impacts on the utility and its subscribers.

15. The Commission concedes that MRC has the necessary facilities to bypass the City's sewage facility. But the Commission is skeptical that sufficient economic incentive exists for MRC to bypass the City's facility. Even if the economic incentive to bypass is real, the financial criterion for Commission implementation of incentive rates to avoid bypass is not met. A decision by MRC to bypass the City's system will increase the overall cost to the remaining ratepayers by a maximum of \$.03 per ccf, which, in the Commission's opinion, does not represent a substantial adverse financial impact.

16. MRC argued that, if the Commission decided to establish COS-based rates, MRC should be given the benefit of proximity to the treatment facility as a cost consideration. The Commission disagrees with MRC's proposal. For the Commission to lend credence to MRC's proximity argument as a cost consideration, the Commission would have to find that MRC is a unique connection deserving its own rate classification. This is not consistent with the facts presented in this Docket. Although the largest, MRC is but one of a number of sewer customers which are characterized as pretreatment customers and which could deserve a separate rate classification. This rate classification will be discussed in the following Findings of Fact.

RATE DESIGN

17. In Order No. 5523g (Commission Docket No. 90.10.67), the Commission found the City should implement a residential rate design with a monthly customer charge and a two step inverted block commodity charge. The Commission decision to implement this rate design was predicated on the premise that low volume consumers should not be burdened with fixed costs associated with peak plant capacities. Although the cost-of-service methodology in this Docket is not the same as that used in Docket No. 90.10.67, peak plant capacity costs are a cost component of the proposed rate. The rate design arguments developed by the Commission in Order No. 5523g are applicable in this Docket. Therefore, the Commission believes the residential rate design for the sewer utility should be the same as that found reasonable in the water filing.

18. The COS methodology in this Docket does not provide the Commission with unit COS information relative to peak plant capacity costs. Therefore, to ensure that low volume consumers are not burdened with peak plant costs, the first 3 ccf of sewage volume should be priced at the commodity rate in effect prior to November 28, 1990. All costs not recovered in the initial rate block should be recovered in the tail block.

19. Connected to the City's sewage system is a group of pretreatment customers. These customers are classified as pretreatment because of their ability to introduce extra-strength waste into the sewage system. Because of this ability, the sewage discharged by these customers is monitored for strength. When the monitoring reveals that these customers have introduced waste with a strength in excess of 200 mg/l or 250 mg/l for BOD and TSS, respectively, the City assesses a surcharge.

20. The pretreatment customers are included in the commercial/industrial rate classification of the City. However, the Commission believes that these subscribers are entitled to a separate rate classification and rate structure because they have unique service characteristics.

21. Pretreatment customers are presently penalized for introducing extra-strength waste into the sewage system and given no rate incentive for introducing lower than normal strength waste. If penalties are appropriate to recognize additional costs associated with treating extra-strength wastes, rate incentives are appropriate for lower than normal strength wastes which cost less to treat. Pretreatment customers making the necessary capital investment in facilities for pretreating waste discharged to the sewage system should be provided a rate that recognizes the utility's lower cost of treatment.

22. For purposes of this order the City should include the pretreatment customers as commercial/industrial in developing unit COS. The rate design for the pretreatment classification should be consistent with that described by Mr. Gallagher at TR pages 144 and 145, Docket No. 90.10.66. This incentive rate would have four components: customer charge, volume charge, BOD charge and TSS charge. The volume charge should be calculated on a ccf basis and the BOD and TSS charge, which will provide the incentive to pretreat wastewater, on a per pound basis.

23. At the evening hearing Mr. Thomas Schneider, a consultant and witness for SRS in Montana Power Company's pending

rate increase application, Commission Docket No. 90.6.39, appeared and offered testimony as a public witness in this Docket. Mr. Schneider suggested that the Commission take administrative notice of a proposal in the Montana Power docket to provide a 10 percent discount in rates for low-income subscribers. Mr. Schneider further recommended that the Commission implement such a discounting proposal for low-income subscribers receiving service from the City's utility operation.

24. Mr. Schneider provided testimony regarding the living conditions of Low Income Energy Assistance Program (LIEAP) customers. LIEAP customers are the target group of consumers that Mr. Schneider asserts should be provided a discount. Mr. Schneider indicated that recent trends reveal that this customer group is experiencing increasing utility bills, declining benefits and static income levels. The witness also indicated that this customer group is experiencing increased economic distress.

25. As previously stated, the City has indicated that it will be increasing rates on a biennial basis to fund its capital improvement program and recover increased costs of operation. By the year 2000 rates in the City's service territory will increase by approximately 100 percent. These increases in rates will have a significant economic impact on LIEAP-qualifying customers and will affect their ability to pay. Implementation of a discount provision for the LIEAP-qualifying consumers should have the effect of reducing the frequency and cost of disconnections, collections and bad debt because of nonpayment. Discounting will improve the affordability making it possible for many customers to meet the payment rather than causing the utility to provide service without receiving any compensation. The Commission believes witness Schneider's proposal to provide for discounted rates to LIEAP-qualifying customers should be adopted.

26. Because the Commission has found it appropriate to provide a discount to LIEAP-qualified consumers connected to the City's system, it is incumbent on the Commission to provide the

City with the parameters for developing and administering the proposal. No statistical information regarding LIEAP-qualifying consumers in the City's service territory was provided. Therefore, the Commission and the City must take administrative notice of public records for purposes of developing the proposal and calculating the financial impacts of discounting on the utility and its subscribers.

27. For purposes of qualifying for this discount, consumers should be prequalified as households with an income no greater than 150 percent of the poverty level. The easiest way for the City to determine that a consumer is qualified for the 10 percent across-the-board discount is to accept Opportunities Incorporated's qualification of a consumer as LIEAP-qualified. Any consumer desiring the discount approved herein should be required to have verification from Opportunities Incorporated of their LIEAP qualification.

28. Information obtained from SRS indicates that Cascade County had 2,020 customers qualified for LIEAP by Opportunities Incorporated during 1990. Because the service area of the City's utility does not encompass the entire county it will be necessary for the City to calculate the number of LIEAP-qualified customers residing within the City's service area. To calculate LIEAP-qualified customers the City will use population information contained in the 1990 census for the City of Great Falls service area and Cascade County. The ratio of service area population to total county population multiplied by total county LIEAP-qualified consumers will provide the City with a reasonable estimate of qualifying customers in the service territory.

29. To calculate the financial/rate design consequences of implementing this program the City will use the following formula: total LIEAP-qualifying consumers in the service area multiplied by average annual domestic consumption of 96 hundred cubic feet (per City's Exhibit No. 12, Docket No. 90.10.66) times the residential rate calculated per COS. The City shall discount this amount, including the annual customer charge, by 10 percent

and recover the discount amount by increasing costs in the tail block by the calculated amount of the discount.

30. Except as noted above, the Commission accepts the rate design proposals of the Applicant.

CONCLUSIONS OF LAW

1. The Applicant, the City of Great Falls, is a public utility as defined in Section 69-3-101, MCA. The Montana Public Service Commission properly exercises jurisdiction over the Applicant's rates. Title 69, Chapter 7, MCA.

2. The Commission has provided adequate public notice and an opportunity to be heard as required by Section 69-3-303, MCA, and Title 2, Chapter 4, MCA.

3. The rates and rate structure approved in this order are just and reasonable. Sections 69-3-201, and 69-3-330, MCA.

ORDER

THEREFORE THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. The City of Great Falls shall file rates consistent with the Findings of Fact contained herein.

2. The rates approved herein shall not become effective until the tariffs, revenue bond ordinance(s), and necessary calculations relating to debt costs and cost-of-service have been submitted for review by the Commission.

DONE IN OPEN SESSION at Helena, Montana, this 18th day of November, 1991, by a 3 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

BOB ANDERSON, Commissioner

JOHN B. DRISCOLL, Commissioner

WALLACE W. "WALLY" MERCER, Commissioner

ATTEST:

Ann Peck
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.